South Africa: Unlikely To Use Strategic Minerals Leverage

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We believe that South Africa is unlikely to react to Western sanctions by cutting off supplies of strategic minerals to the import-dependent West. A South African embargo would be counterproductive economically, lowering export earnings in the face of a debt and liquidity crisis. Moreover, an embargo would tarnish South Africa's reputation as a reliable supplier of strategic minerals and would spur substitution and recycling efforts by industrial users. Even if some limited action were taken for political reasons, we believe that such an embargo would be short lived and have limited impact on the West.

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Key Supplier

Concerns that South Africa would use its vast mineral wealth as a political lever against the West have surfaced each time Western economic sanctions against Pretoria have been suggested or imposed. South African officials themselves have occasionally hinted that a strategic mineral cutoff might be used in retaliation. What makes the threat credible is the heavy dependence of many Western countries on a variety of South African minerals:

- South Africa is the West's leading producer of chromium, manganese, platinum-group-metals (PGM), and vanadium, accounting for 24 to 90 percent of Western output. Only the Soviet Union can compete in terms of volume of production and reserves.
- Western import dependence for these four strategic minerals varies from 50 to 99 percent for the United States, 92 to 100 percent for the EC, and 70 to 99 percent for Japan. South Africa is the key supplier to most of these markets.

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Strategic Minerals: Import Dependence *Percent*

	United States		EC [a] (1983)	Japan [a] (1983)
	Share of US Consumption Supplied by Imports (1984)	Share of US Consumption Supplied by South Africa (1980-83)		
Chromium	82	55	92	99
Manganese	99	39	99	95
Platinum group	91	49	100	95
Vanadium	52	44	100	70

[a] Details on EC and Japanese imports of South African strategic minerals are incomplete.

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Minerals and the South African Economy

While mining revenues account for approximately two-thirds of South African export earnings, the importance of strategic minerals is dwarfed by the economic contribution of gold and other minerals. Gold alone accounts for nearly half of all export earnings. Diamonds and coal, not normally considered strategic, contribute an additional 10 to 11 percent. Chromium, manganese, vanadium, platinum-group metals, and ferroalloys account for no more than 9 percent of earnings, according to our estimates.

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The strategic mineral industry's contribution to South African employment also is relatively minor. The entire mining industry (including coal and

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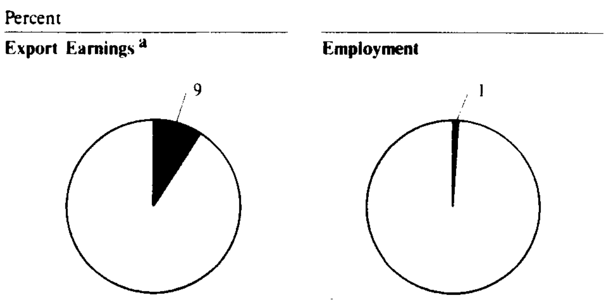
South Africa: The Importance of Strategic Minerals, 1984



a Platinum group metals, 5 percent; ferroalloys, 3 percent; and other, 1 percent.

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uranium) employs only 14 percent of all South African workers with the gold industry again the major player. We estimate that only 10 percent of all mine workers—1 percent of the entire labor force—are employed by the strategic minerals sector.

Lack of Minerals Leverage

Although the South African economy is not dependent on the export of strategic minerals, an embargo at this time would deepen the current financial crisis. Over the longer term, an embargo would be more damaging:

- Gold earnings are expected to decline because of depletion of high-quality reserves, and South Africa will look to nongold exports—such as strategic minerals—to maintain economic growth.

- Any deliberate supply cutoff would tarnish South Africa's reputation as a reliable supplier, and a portion of its market share could be lost even if the embargo were later lifted.

- In addition, a supply cutoff would undoubtedly trigger accelerated substitution and recycling efforts, encourage competing producers to gear up production, and possibly lead to use of government stockpiles. The Soviet Union would probably exploit the situation, using substantial profits to offset declines in other hard currency exports.

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Prospects for an Embargo

Moreover, there is no indication that South African mineral producers are concerned that their government will take action. According to Embassy reporting, producers are more concerned that Western trade sanctions—currently confined to coal—could spread to other mineral commodities. As a result, we believe that a total embargo of South African strategic minerals is unlikely. However, Pretoria might opt for a partial embargo as a political gesture. South Africa would lose little of its trade volume, at least in the short run, and would probably try to reorient its strategic mineral trade to other markets. In that case, we believe Western countries could survive by encouraging alternate producers to restart idled capacity, increasing imports from the USSR, using stockpiled materials, intensifying recycling efforts, and, if necessary, reducing civilian usage.

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South African Strategic Minerals—Prospects and Vulnerabilities

Uses and Strategic Applications	South African Prospects	South African Vulnerabilities
Chromium		
Ferrochromium stainless steel specialty alloys Tanks, ships, military aircraft, naval nuclear propulsion systems	Will probably emerge as premier ferrochromium producer because of vast reserves and cheap power Low rand value will contribute to keep costs down and dollar earnings high for producers Earnings unlikely to rise dramatically—prices forecast to increase slowly	Some competition from new ferrochromium plants in Greece, India, Philippines, Finland, Sweden, and Turkey Increased substitution likely in noncritical applications
Platinum-Group Metals (PGM)		
Auto catalytic converters Electrical contacts Petroleum and chemical catalysts Jet aircraft engines Lasers	No major new competition on horizon Domestic industry in throes of major expansion to meet projected increased demand Industry controlled by three companies who adjust production to changes in demand, thus stifling substitution and recycling Consumption expected to rise as Europeans impose strict auto emissions standards	Forces depressing gold prices—strong dollar, high interest rates, and low inflation—could continue to keep lid on PGM prices despite improved market Recycling could supply up to 10 percent of world consumption by 1990
Manganese		
Ferromanganese for steel production Ships, tanks, other military vehicles	Will retain position as one of world's major producers—has large reserves Recent merger of two major producers should curb production costs and improve competitiveness	Technology will continue to lower amount of manganese used per unit of steel Consumption tied to steel demand Increased competition from Gabon, Australia, and Brazil May be unable to capture part of new Soviet and Chinese markets
Vanadium		
Steel alloys Titanium alloys Oil pipelines Jet engines	Producers willing to compete by lowering prices Rand weakness has boosted revenues	Boom-bust nature of industry likely to continue Large sales to the West by China if prices rise sufficiently

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Strategic Minerals: World Production and Reserves, 1984

Percent

South Africa				Other Producers	
Mineral	Share of Western Production	Share of World Production	Share of World Reserves		Share of World Production
Chromium	46	27	84	USSR	29
				Albania	11
				Zimbabwe	5
				Turkey	5
				India	5
Manganese	24	11	71	USSR	47
				Gabon	9
				Brazil	9
				China	7
				India	6
Platinum group	90	42	81	USSR	54
				Canada	3
Vanadium	59	30	47	USSR	33
				China	17
				Finland	11

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16 October 1985

Talking Points on Afghanistan

Afghanistan: Pre-Summit Military Outlook

Soviet forces in coming weeks will continue their intense military activity in Afghanistan, but we believe it is probably not linked to the November summit talks.

-- A series of combined Soviet-Afghan combat operations aimed at disrupting insurgent efforts to build up supplies prior to the onset of winter is normal at this time of year.

Because Soviet forces are already heavily committed to routine sweep operations, a spectacular campaign on the eve of the summit is unlikely.

-- Most of the Soviet ground force elements are now out of garrison, engaged in combat.

-- A relatively large Soviet combat operation, involving at most 2-3,000 men, is underway near the entrance to the Panjsher Valley.

We have not seen an increase in military efforts to intimidate Pakistan.

-- Border violations are continuing, but have not gone up dramatically.

-- A routine Tass commentary, however, recently warned Pakistan of the dangers of continuing its support for the insurgents.

Moscow is holding firm to its position that the question of Soviet withdrawal from Afghanistan is an issue between Moscow and Kabul.

-- In an interview this weekend with Pakistani journalists that the US Embassy claimed had all the markings of a "made-in-Moscow" propaganda piece, Babrak Karmal called direct talks with Islamabad the key to progress on the Afghan issue.

-- Soviet Deputy Foreign Minister Kapitsa also told Pakistani journalists that Afghanistan would not be discussed at the summit talks, urging Islamabad to deal directly with Kabul. [redacted] we expect Gorbachev will vigorously defend Moscow's position. 25X1 25X1

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